

REPORT OF EXAMINATION

OF

ALABAMA MUNICIPAL INSURANCE CORPORATION

MONTGOMERY, ALABAMA

AS OF

DECEMBER 31, 2017

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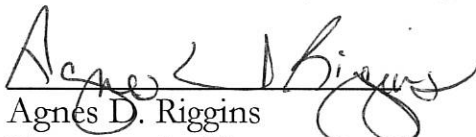
EXAMINER'S AFFIDAVIT

STATE OF ALABAMA COUNTY OF MONTGOMERY

Agnes D. Riggins being duly sworn, states as follows:


1. I have authority to represent Alabama in the examination of Alabama Municipal Insurance Corporation.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Alabama Municipal Insurance Corporation was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.


Agnes D. Riggins
Examiner-in-Charge

Subscribed and sworn before me by Agnes D. Riggins on this 19th day of December 2018.

(SEAL)


(Signature of Notary Public)



My commission expires May 11, 2022



KAY IVEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE

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STATE FIRE MARSHAL
SCOTT F. PILGREEN

GENERAL COUNSEL
REYN NORMAN

December 19, 2018

Jim L. Ridling, Commissioner
State of Alabama
Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

**Alabama Municipal Insurance Corporation.
Montgomery, Alabama**

at its home office at 110 North Ripley Street, Montgomery, AL 36104, as of December 31, 2017. The report of examination is submitted herewith.

Where the description "Company" or "AMIC" appears herein, without qualification, it will be understood to indicate Alabama Municipal Insurance Corporation.

SCOPE OF EXAMINATION

We have performed an examination of Alabama Municipal Insurance Corporation, a single state insurance company. The last examination covered the period of January 1, 2008 through December 31, 2012. The current examination covers the period of January 1, 2013 through December 31, 2017.

The examination was conducted in accordance with applicable statutory requirements of the Code of Alabama, 1975, as amended, the Alabama Insurance Department regulations, bulletins and directives, and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Code of Alabama, 1975, as amended and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

The Company's annual statements for each year under examination were compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology systems (IT) was conducted concurrently with the financial examination. The IT examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A market conduct examination was performed concurrently with the financial examination. The examination included reviews of the Company's territory, plan of operation, claims handling, advertising and marketing, policy forms and underwriting, policyholders' complaints, producers' licensing requirements, and privacy standards.

TaylorChandler, LLC, was the Company's certified public accountant (CPA) for all years under examination. The examiners reviewed the CPAs' workpapers, copies of which were incorporated into the examination as deemed appropriate.

A signed letter of representation was obtained at the conclusion of the examination. In this letter, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2017.

ORGANIZATION AND HISTORY

The Company was incorporated March 29, 1989, in Montgomery County, Alabama, as a mutual insurance company. The Articles of Incorporation permit the Company to provide property and casualty insurance and risk management services to its members. The Company is only authorized to solicit as its members, incorporated cities and towns that are members of the Alabama League of Municipalities (ALM). At December 31, 2017, the Company had 577 members, which consisted of the following:

- 389 Municipalities
- 78 Utility Boards
- 49 Associations
- 41 Solid Waste/Water Authorities
- 20 Transit Authorities

Since inception, the Company has been exempt from federal income taxes per Section 115(1) of the Internal Revenue Code, Revenue Ruling 90-74. On December 3, 1999, the Company was granted exemption from Alabama premium taxes under the provisions of ALA. CODE § 27-4A-3(e) (1975).

At December 31, 2017, the Company's gross paid in and contributed surplus was \$6,053,305 and unassigned funds (surplus) were \$48,901,934.

MANAGEMENT AND CONTROL

Policyholders

The Company is a mutual insurance corporation with ownership vested in its policyholders. All policyholders of the Company are municipal organizations that are members of the Alabama League of Municipalities (ALM). The Company's charter prevents it from soliciting business from any entities that are not members of ALM.

Board of Directors

Directors are elected at the annual meeting of the members and serve until their successors are elected and qualified. The following were serving at December 31, 2017:

<u>Name and Address</u>	<u>Principal Occupation</u>
Billy Joe Driver, Chairman Clanton, Alabama	Mayor of Clanton, Alabama
Melvin Loyd Duran Jr., Vice-Chair Priceville, Alabama	Mayor of Priceville, Alabama
David Hugh Bradford Muscle Shoals, Alabama	Mayor of Muscle Shoals, Alabama
Charles Harold Murphy Robertsdale, Alabama	Mayor of Robertsdale, Alabama
William Rodney Marks Athens, Alabama	Mayor of Athens, Alabama

Committees

At December 31, 2017, the Company had three committees of the Board. Members of the Committee were as follows:

Audit Committee

The Board of Directors serves as the Audit Committee. The following were serving at December 31, 2017:

<u>Name</u>	<u>Title</u>
Billy Joe Driver	Audit Committee Chairman
Melvin Loyd Duran Jr.	Audit Committee Vice-Chairman
David Hugh Bradford	
Charles Harold Murphy	
William Rhodney Marks	

Nominating Committee

The By-Laws provide that the Board of Directors may elect a Nominating Committee consisting of two or more directors. The following directors were elected at December 31, 2017:

David Hugh Bradford
William Rhodney Marks

Claims Committee

The Claims Committee was composed of the following members at December 31, 2017:

Billy Joe Driver, Chairman
Melvin Duran, Vice-Chairman

Officers

The following officers were elected by the Board of Directors and serving at December 31, 2017:

<u>Name</u>	<u>Title</u>
Stephen Everett Wells	President
John Kenneth Smith	Secretary/Treasurer

Conflict of Interest

Conflict of Interest Statements were signed and filed by all directors, officers and key personnel. No conflicts were noted.

Dividends to Policyholders

The Company paid the following dividends to policyholders during the examination period:

<u>YEAR</u>	<u>DIVIDEND</u>
2013	\$ 625,857
2014	\$ 627,244
2015	\$ 640,564
2016	\$ 648,136
2017	\$ 657,914

CORPORATE RECORDS

The Articles of Incorporation and *By-Laws*, as amended, were inspected during the course of the examination and were found to provide for the Company's operation in accordance with the usual corporate practices and applicable statutes and regulations.

Minutes of meetings of the Board of Directors were reviewed for the period under examination. The minutes appeared to be complete and provided for the operation of the Company in accordance with usual corporate practices and applicable statutes and regulations.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company was organized as a mutual insurance company and classified as a not-for-profit organization by federal and state authorities. Therefore, the Company is not subject to the Alabama Insurance Holding Company Act, as defined in ALA. CODE § 27-29-1 (1975).

Management and Service Agreements

Administrative and Professional Services Agreement

The Company had no employees during the examination period. The Company operated under an Administrative and Professional Services Agreement with the Alabama League of Municipalities (ALM). The agreement superseded and terminated all past agreements.

The Administrative and Professional Services Agreement was entered into on March 20, 2014, by Alabama League of Municipalities (ALM) and Alabama Municipal Insurance Corporation (AMIC). In the Agreement, certain administrative and professional services, including but not limited to preparation of payroll, lobbying, administration of employee benefits, marketing and office space (Loss Control), as well as promotion and sponsorship of the Company's programs were provided by ALM, with payment for the services due on or before the fifteenth of each month. Payroll disbursements made by ALM on the Company's behalf will be reimbursed by the Company in a timely manner. The Agreement is an automatic yearly renewal agreement which may be terminated by either party upon sixty days written notice of such termination.

SkidCar Loss Control Agreement

The Agreement was made and entered into January 1, 2015, between Alabama Municipal Insurance Corporation and the Municipal Workers Compensation Fund, Inc.

The Agreement provided certain services in connection with liability, property and workers' compensation loss control.

The Company retained an independent contractor to assist in connection with the Company's business objective of providing for member municipal corporations and their duly authorized agencies liability, property insurance and workers' compensation coverage and to provide claims and other services relating to such coverage for municipal corporations.

The parties mutually agreed:

1. Training will be provided for members, prospective members and other related entities of the Company, commensurate with duties of his job description. All activities shall be coordinated with the knowledge and consent of the President

of the Company and Operations Manager of the Municipal Workers Compensation Fund.

2. The independent contractor has neither obligation, nor authority under this Agreement to provide neither legal services nor claims services, nor to discuss opinions concerning specific claims payments or settlements with any member or member-employee. Conclusive evidence to the contrary shall be grounds to terminate the Agreement immediately.
3. The effective date of this Agreement shall be January 1, 2015, and shall terminate three years thereafter unless an earlier termination date is agreed upon. The Agreement may be terminated, with or without cause, by giving the other party thirty days written notice. Addendum No. 1, effective October 26, 2017, extended the term of the contract to December 1, 2019.

Loss Control Agreement

The Agreement was made and entered into April 1, 2013, between Alabama Municipal Insurance Corporation and the Municipal Workers Compensation Fund, Inc.

The Agreement provided certain services in connection with liability, property and workers' compensation loss control.

The Company retained an independent contractor to assist in connection with the Company's business objective of providing for member municipal corporations and their duly authorized agencies liability, property insurance and workers' compensation coverage and to provide claims and other services relating to such coverage for municipal corporations.

The parties mutually agreed:

1. Training will be provided for members, prospective members and other related entities of the Company, commiserate with duties of the in-house loss control staff. All activities shall be coordinated with the knowledge and consent of the President of the Company and Operations Manager of the Municipal Workers Compensation Fund.
2. The independent contractor has neither obligation, nor authority under this Agreement to provide neither legal services nor claims services, nor to discuss opinions concerning specific claims payments or settlements with any member

or member-employee. Conclusive evidence to the contrary shall be grounds to terminate the Agreement immediately.

3. The effective date of this Agreement shall be April 1, 2013, and shall terminate two years thereafter unless an earlier termination date is agreed upon. The Agreement may be terminated, with or without cause, by giving the other party thirty days written notice. Addendum No. 1, effective April 1, 2015, extended the term of the contract to April 1, 2019.

Law Enforcement Loss Control Agreement

The Agreement was made and entered into January 1, 2013, between Alabama Municipal Insurance Corporation and the Municipal Workers Compensation Fund, Inc.

The Agreement provided for certain services in connection with liability, property and workers' compensation loss control.

The Company retained an independent contractor to assist in connection with the Company's business objective of providing for member municipal corporations and their duly authorized agencies liability, property insurance and workers' compensation coverage and to provide claims and other services relating to such coverage for municipal corporations.

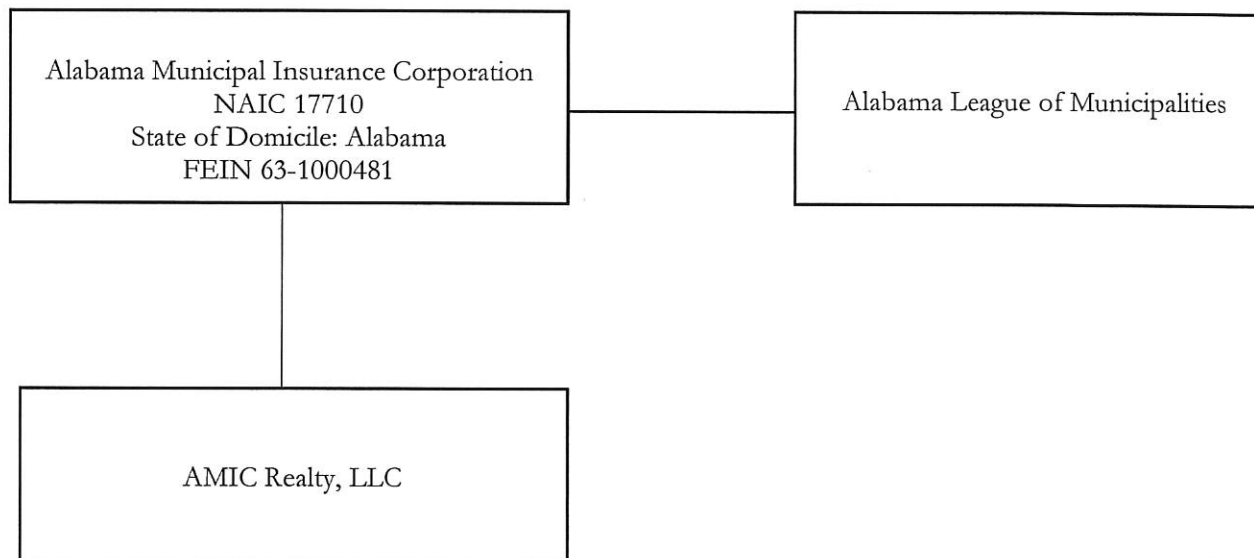
The parties mutually agreed:

1. Training will be provided for members, prospective members and other related entities of the Company, commiserate with duties of the in-house loss control staff. All activities shall be coordinated with the knowledge and consent of the President of the Company and Operations Manager of the Municipal Workers Compensation Fund.
2. The independent contractor has neither obligation, nor authority under this Agreement to provide neither legal services nor claims services, nor to discuss opinions concerning specific claims payments or settlements with any member or member-employee. Conclusive evidence to the contrary shall be grounds to terminate the Agreement immediately.
3. The effective date of this Agreement shall be January 1, 2013, and shall terminate two years thereafter unless an earlier termination date is agreed upon. The Agreement may be terminated, with or without cause, by giving the other

party thirty days written notice. Effective October 20, 2016, the term of the contract was extended to January 1, 2019.

Organizational Chart

The following chart represents the corporate affiliations of the Company as of December 31, 2017:



PENSION AND STOCK OWNERSHIP

The Company had no employees, provided no direct benefits and had no employee benefit plans in effect during the examination period. All administrative and employee services were provided by Alabama League of Municipalities (ALM), under the terms of the “*Administrative and Professional Services Agreement*” – page 7.

COMPLIANCE WITH 18 U.S.C. § 1033

ALA. ADMIN. CODE 482-1-146-.11 (2009) states:

(1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

The Company had internal procedures in place for determining if applicants for employment had been convicted of a Section 1033 offense. There were procedures to periodically ascertain if existing employees had been convicted of a Section 1033 offense since the date of hire as well.

SCHEDULE OF SPECIAL DEPOSITS

Statutory Deposits

In order to comply with the statutory requirements for doing business in the State of Alabama, the Company had the following on deposit with the Alabama Department of Insurance as of December 31, 2017.

Description	Book/Adjusted Carrying Value	Fair Value
Certificate of Deposit*	\$ <u>125,843</u>	\$ <u>125,000</u>
Total	\$ <u>125,843</u>	\$ <u>125,000</u>

*For the benefit of all Policyholders

FINANCIAL CONDITION / GROWTH OF THE COMPANY

The following information presents significant items that reflect the growth of the Company for the period under review.

	Admitted <u>Assets</u>	<u>Liabilities</u>	Capital & <u>Surplus</u>	Premiums <u>Earned</u>
2017	\$120,062,205	\$ 65,106,966	\$ 54,955,239	\$ 33,926,992
2016	111,884,455	62,921,219	48,963,236	32,720,697
2015	106,258,734	61,390,695	44,868,038	31,522,060
2014	102,089,068	61,431,418	40,657,651	31,033,345
2013	98,191,182	61,911,620	36,279,562	31,480,651

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company is a mutual insurance company whose members are also members of the Alabama League of Municipalities (ALM). Alabama Municipal Insurance Corporation (AMIC) participants must be members in good standing of ALM to be eligible to participate in AMIC insurance and risk management programs. The Company writes a variety of commercial multiple peril coverages to municipal organizations in the State of Alabama.

Territory

During the examination period the Company was licensed to provide automobile, commercial general liability, police professional liability, public officials' errors and omissions, property and surety bond coverage in the state of Alabama only.

Advertising and Marketing

The Company does not have a formal marketing program. Producers are not allowed to use their own advertising materials. The Company's advertising file contained a total of 59 brochures, handouts and journals that described the Company and the Alabama League of Municipalities and the services they provide. The review of all 59 brochures, handouts and journals was performed, and the examiners determined that the Company did not make false, deceptive or misleading statements or representations.

Claims

Paid Claims

A sample of 108 paid claims was taken from a total population of 4,045 paid claims for the examination period. The sample selection was reviewed with regards to compliance with policy provisions, timeliness of payments, and adequacy of documentation. No significant discrepancies were found. Based on the review performed, the Company complied with ALA. ADMIN. CODE 482-1-125.07 (2002) which states:

- (6) The insurer shall tender payment within thirty (30) days or the time specified in the policy, after accepting liability, reaching an agreement on the amount of the claim and receipt of any documents necessary to consummate the settlement.

Denied Claims

A sample of 105 denied claims was selected from a total population of 1,834 denied claims for the examination period. The sample selections were reviewed to determine if the claims were settled in accordance with policy provisions and applicable statutes and regulations. There were no discrepancies found. The documentation maintained in the claims files supported or justified the ultimate claim determination. Based on the review performed, the Company complied with ALA. ADMIN. CODE 482-1-125-.07 (2002) which states:

- (1) Within thirty (30) days, or the number of days specified in the policy, after receipt by the insurer of properly executed proofs of loss, the first party claimant shall be advised of the status of acceptance or denial of the claim by the insurer. No insurer shall deny a first party claim on the grounds of a specific policy provision, condition or exclusion unless reference to such provision, condition, or exclusion is included in the denial.

Policyholders' Complaints

The Company received two complaints during the examination period. The Company's responses fully addressed the issues raised and the complaints were appropriately resolved within the required time frame. The Company recorded all complaints in its complaint register and recorded the following information: line of business, function and reason for the complaints. The Company had a sufficient method for the distribution of, obtaining and recording responses to complaints. The

Company's telephone number and address was provided to the policyholders for consumer inquiries and/or complaints.

Producers' Licensing

A sample of 116 transactions was selected from a population of 44,776 written premium transactions for the examination period. The sample was reviewed to determine if the agencies and producers were properly licensed and appointed prior to writing business. The review of the Company's records determined that the producers and business entities representing the Company were duly licensed and appointed by the State of Alabama. No discrepancies were noted.

Terminated Producers

The Company terminated fifteen (15) producers during the examination period. The examination review determined that the Company appropriately terminated the producers through the SBS system, however, the Company did not send termination notices to the fifteen (15) producers in accordance with ALA. CODE § 27-7-30.1(a) (1975) which states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Underwriting and Rating

A sample of 116 transactions out of a population of 44,776 written premium transactions for the examination period was selected for review. The sample selection was reviewed with regards to compliance with underwriting guidelines and unfair discriminatory practices. The premiums were calculated in accordance with the Company's guidelines and the rates used were filed with Alabama Department of Insurance (ALDOI). The information reviewed indicated the Company did not use unfair or discriminatory practices.

There were 41 terminated and/or non-renewed policies for the examination period. All of the policies were reviewed with regards to: (1) compliance with cancellation policies and procedures; and (2) proper documentation. The Company maintained proper documentation for Company initiated and insured initiated cancellations. The cancellations and/or non-renewals were handled in accordance with the Company's policies and procedures.

Policy Forms

The Company did not have any rate filings for the examination period.

Privacy

The Company only wrote commercial multiple peril insurance during the examination period. ALA. ADMIN. CODE 482-1-122.02 (2009) states:

B. Scope. This regulation applies to nonpublic personal financial information about individuals who obtain or seek to obtain products or services primarily for personal, family or household purposes from licensees. This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purposes, nor does it apply to workers compensation claims, workers compensation insurance, workers compensation programs, or employee welfare benefits plans as defined in 29 U.S.C. § 1002(1) or any third party administrator to the extent it provides services to a workers compensation program or employee welfare benefit plan.

REINSURANCE

The Company's reinsurance/insurance brokerage services and certain administrative services were provided by Arthur J. Gallagher Risk Management Services, Inc.

Reinsurance Assumed

The Company had no reinsurance assumed at December 31, 2017.

Reinsurance Ceded

At December 31, 2017, the Company's ceded reinsurance program consisted of property reinsurance, casualty reinsurance, boiler and machinery reinsurance and privacy liability (cyber) reinsurance.

Property Reinsurance

Effective Date: 5/1/2017 – 4/30/2018
Self-Insured Retention: \$ 150,000
Per Occurrence: \$ 450,000
Corridor: \$1,500,000: May 1 – December 31
\$1,500,000: January 1 – April 30
\$5,000,000
Carrier: *Lloyd's of London*

\$45,000,000 xs \$5,000,000
Carriers: *Lloyd's of London*
Berkshire Hathaway Specialty Insurance Company
Pennsylvania Manufacturers' Association Insurance Company
Westchester Fire Insurance Company

\$25,000,000 xs \$50,000,000
Carriers: *Ironshore Indemnity Inc.*
Westchester Fire Insurance Company

Casualty Reinsurance

Effective Date: 11/1/2017 – 11/1/2018
Self-Insured Retention: \$ 350,000
Limits: \$1,650,000
Corridor: \$ 350,000
\$ 400,000 additional for Auto & Class Action claims
Carrier: *Pennsylvania Manufacturers Association Insurance Company*

Boiler & Machinery Reinsurance

Effective Date: 5/15/2017 – 5/15/2018
Self-Insured Retention: \$ 25,000 **
Limit: \$50,000,000 – Per Occurrence
Carrier: *Travelers Boiler Re*
**\$100,000 Retention on generators exceeding 1,000kw (Scottsboro Electric)

Privacy Liability (Cyber) Reinsurance

Effective Date: 11/1/2017 – 11/1/2018
Self-Insured Retention: \$ 25,000
Limit: \$ 975,000 – Per Insured
Carrier: *Lloyd's of London*

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained primarily on electronic data processing (EDP) equipment. Management and record-keeping functions were performed by the personnel of Alabama League of Municipalities (ALM) under the terms of a Management and Operating Agreement. Warren Averett Technology Group, LLC provided the Company with IT support services which included proactive maintenance and support of the Company's Information Technology infrastructure and end user devices. The Company's financial statement preparation for each year under examination and other accounting services were provided by TaylorChandler, LLC, the Company's independent auditor under the terms of a contract with TaylorChandler, LLC. The Company's actuarial loss reserve report and statement of actuarial opinion for each year under examination were prepared by Merlinos & Associates, Inc.

FINANCIAL STATEMENT INDEX

The following financial statements are based on the statutory financial statements filed by the Company with the Alabama Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on the financial statement reflect any examination adjustments to the amount reported in the annual statement and should be an integral part of the financial statements.

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ALABAMA MUNICIPAL INSURANCE CORPORATION
STATEMENT OF ASSETS
For the Year Ended December 31, 2017

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Prior Year Net Admitted Assets</u>
ASSETS				
Bonds	\$ 61,058,514	\$ -0-	\$ 61,058,514	\$ 58,585,901
Stocks:				
Preferred stocks	736,400		736,400	728,346
Common stocks	24,641,346		24,641,346	14,604,947
Real estate:				
Properties occupied by the company	827,146		827,146	834,663
Cash, cash equivalents and short-term investment	15,083,425		15,083,425	14,379,251
Other invested assets	1,056,159		1,056,159	1,135,874
Investment income due and accrued	446,438		446,438	424,947
Uncollected premiums and agents' balance in the course of collection	6,853,470	559,570	6,293,900	5,853,198
Amount recoverable from reinsurers	8,153,071		8,153,071	13,313,578
Electronic data processing equipment and software	159,528		159,528	432,499
Furniture and equipment, including health care delivery assets	58,991	58,991		
Deductible receivable	1,784,753	178,475	1,606,278	1,591,251
Other receivables	1,773,486	1,773,486		
Deferred acquisition cost	4,990	4,990	0	0
TOTAL ASSETS	\$ <u>122,637,717</u>	\$ <u>2,575,512</u>	\$ <u>120,062,205</u>	\$ <u>111,884,455</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT
ARE AN INTEGRAL PART THEREOF.

ALABAMA MUNICIPAL INSURANCE CORPORATION
STATEMENT OF LIABILITIES, SURPLUS AND OTHER FUNDS
For the Year Ended December 31, 2017

Liabilities:	<u>Current Year</u> <u>Total</u>	<u>Prior Year</u> <u>Total</u>
Losses	\$ 22,929,812	\$ 21,064,893
Loss adjustment expenses	23,743,795	23,584,934
Other expenses	64,423	46,916
Unearned premiums	16,136,095	15,474,967
Ceded reinsurance premium payable	2,205,849	2,749,509
Derivatives	<u>26,992</u>	<u>0</u>
Total Liabilities	\$ <u>65,106,966</u>	\$ <u>62,921,219</u>
 Gross paid in and contributed surplus	 6,053,305	 6,053,305
Unassigned funds (surplus)	48,901,934	42,909,931
 Surplus as regards policyholders	 \$ <u>54,955,239</u>	 \$ <u>48,963,236</u>
Total	\$ <u>120,062,205</u>	\$ <u>111,884,455</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT
ARE AN INTEGRAL PART THEREOF.

ALABAMA MUNICIPAL INSURANCE CORPORATION
STATEMENT OF INCOME
For the Years Ended December 31, 2017, 2016, 2015, 2014 and 2013

UNDERWRITING INCOME	2017	2016	2015	2014	2013
Premiums earned	\$ 33,926,992	\$ 32,720,697	\$ 31,522,060	\$ 31,033,345	\$ 31,480,651
DEDUCTIONS:					
Losses incurred	\$ 14,110,588	\$ 13,411,442	\$ 10,055,470	\$ 12,007,114	\$ 12,801,602
Loss adjustments expenses incurred	7,317,456	9,847,591	9,405,162	8,536,710	5,840,975
Other underwriting expenses incurred	<u>8,650,828</u>	<u>7,736,864</u>	<u>7,874,282</u>	<u>7,907,525</u>	<u>7,163,729</u>
Total underwriting deductions	\$ <u>30,078,872</u>	\$ <u>30,995,897</u>	\$ <u>27,334,914</u>	\$ <u>28,451,349</u>	\$ <u>25,806,306</u>
Net Underwriting gain (loss)	\$ <u>3,848,120</u>	\$ <u>1,724,800</u>	\$ <u>4,187,146</u>	\$ <u>2,581,996</u>	\$ <u>5,674,345</u>
INVESTMENT INCOME					
Net investment income earned	\$ 2,446,331	\$ 1,595,831	\$ 1,932,817	\$ 1,977,580	\$ 1,358,324
Net realized capital gains (losses)	<u>279,944</u>	<u>76,750</u>	<u>-379,297</u>	<u>691,016</u>	<u>692,629</u>
Net investment gain (loss)	\$ <u>2,726,275</u>	\$ <u>1,672,581</u>	\$ <u>1,553,520</u>	\$ <u>2,668,596</u>	\$ <u>2,050,953</u>
OTHER INCOME					
Finance and services charges not included in premiums	\$ 37,524	\$ 30,177	\$ 48,512	\$ 50,000	\$ 47,179
Aggregate write-ins for miscellaneous income	<u>20,957</u>	<u>27,567</u>	<u>-6,477</u>	<u>26,855</u>	<u>69,697</u>
Total other income	\$ <u>58,481</u>	\$ <u>57,744</u>	\$ <u>42,035</u>	\$ <u>76,855</u>	\$ <u>116,876</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 6,632,876	\$ 3,455,125	\$ 5,782,701	\$ 5,327,447	\$ 7,842,174
Dividend to policyholders	<u>657,914</u>	<u>648,136</u>	<u>640,564</u>	<u>627,244</u>	<u>625,857</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ <u>5,974,962</u>	\$ <u>2,806,989</u>	\$ <u>5,142,137</u>	\$ <u>4,700,203</u>	\$ <u>7,216,317</u>
Net income	\$ <u>5,974,962</u>	\$ <u>2,806,989</u>	\$ <u>5,142,137</u>	\$ <u>4,700,203</u>	\$ <u>7,216,317</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT
ARE AN INTEGRAL PART THEREOF.

ALABAMA MUNICIPAL INSURANCE CORPORATION
STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
For the Years Ended December 31, 2017, 2016, 2015, 2014 and 2013

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as regards policyholders – Prior year	\$ 48,963,236	\$ 44,868,038	\$ 40,657,651	\$ 36,279,563	\$ 26,044,986
Net income or (loss)	\$ 5,974,962	\$ 2,806,989	\$ 5,142,137	\$ 4,700,203	\$ 7,216,317
Change in net unrealized capital gains (losses)	128,612	536,535	-867,579	-329,898	991,332
Change in net deferred income tax					
Change in nonadmitted assets	-111,571	751,674	-64,171	-562,217	950,928
Change in provision for reinsurance	<u>0</u>	<u>0</u>	<u>0</u>	<u>570,000</u>	<u>1,076,000</u>
Change in surplus as regards policyholders	\$ <u>5,992,003</u>	\$ <u>4,095,198</u>	\$ <u>4,210,387</u>	\$ <u>4,378,088</u>	\$ <u>10,234,577</u>
Surplus as regards policyholders – current year	\$ <u>54,955,239</u>	\$ <u>48,963,236</u>	\$ <u>44,868,038</u>	\$ <u>40,657,651</u>	\$ <u>36,279,563</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT
ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds

\$61,058,514

The review of the Company's 2017 Annual Statement, Schedule D - Part 1 noted the following:

The Company did not use the FE symbol to identify securities that are exempt from the SVO filing requirements in accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities and Valuation Office which states:

FE means exempt from filing with the SVO and is used by an insurance company to report an NAIC Designation for an exempt security on the NAIC Financial Statement Blank. When reporting a security on its annual or quarterly financial statements, the administrative symbol FE is used with an NAIC 1 through 6 Designation...FE signifies that the reported security meets the criteria set forth in Part Two, Section 4(d) of this Manual and that the NAIC Designation was arrived at by the insurer by converting the NAIC CRP rating(s) into a corresponding NAIC Designation in accordance with the conversion instructions set forth in Part Two, Section 4 (d) (i)(A) and (B) of this Manual and the rating equivalency identified in Section 7(d) (iii) of this Part or by the NAIC in comparing the security with the NAIC CRP rating feeds... U.S. Government obligations are not required to be filed with the SVO.

Note 2 - Analysis of Changes to Surplus

There were no adjustments made to surplus.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of contingent liabilities and pending litigation included a review of the statutory financial statement disclosures, minutes of the corporate governing bodies, examination of the accounts and unrecorded items; and obtaining a letter of representation from management. The external auditor's legal letter summary at December 31, 2017 was reviewed as well. These reviews did not disclose any items that would have a material effect on the Company's financial condition.

SUBSEQUENT EVENTS

A review of events subsequent to the December 31, 2017 examination date was completed. The review of subsequent events included an inspection of the general journal entries, minutes of meetings, interim financial statements and an inquiry of accounting matters. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the examination with regards to the Company's compliance with the recommendations made in the prior examination report. The review indicated that the Company had satisfactorily complied with the prior examination recommendations with the exception of the following:

Producers' Licensing

The previous examination report recommended the Company send termination notices to terminated producers. The Company terminated fifteen (15) producers during the examination period. The Company did not send termination notices to the producers. It is again recommended the Company send termination notices to terminated producers in accordance with ALA. CODE § 27-7-30.1(a) (1975).

Bonds

The previous examination report recommended the Company accurately report the NAIC designations for each of its bonds, which are exempt from the SVO filing requirements. It is again recommended that the Company use the FE symbol to identify securities that are exempt from the SVO filing requirements in accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities and Valuation Office.

COMMENTS AND RECOMMENDATIONS

Producers' Licensing – Page 14

It is again recommended the Company send termination notices to its producers in accordance with ALA. CODE § 27-7-30.1(a) (1975) states:

Within 15 days after making the notification required by subsection (e) of Section 27-7-30, the insurer shall mail a copy of the notification to the producer at his or her last known address. If the producer is terminated for cause for any of the reasons listed in Section 27-7-19, the insurer shall provide a copy of the notification to the producer at his or her last known address by certified mail, return receipt requested, postage prepaid or by overnight delivery using a nationally recognized carrier.

Bonds – Page 23

It is again recommended the Company use the FE symbol to identify securities that are exempt from the SVO filing requirements in accordance with the NAIC Purposes and Procedures Manual of the NAIC Securities and Valuation Office.

FE means exempt from filing with the SVO and is used by an insurance company to report an NAIC Designation for an exempt security on the NAIC Financial Statement Blank. When reporting a security on its annual or quarterly financial statements, the administrative symbol **FE** is used with an **NAIC 1 through 6** Designation...**FE** signifies that the reported security meets the criteria set forth in Part Two, Section 4(d) of this Manual and that the NAIC Designation was arrived at by the insurer by converting the NAIC CRP rating(s) into a corresponding NAIC Designation in accordance with the conversion instructions set forth in Part Two, Section 4 (d) (i)(A) and (B) of this Manual and the rating equivalency identified in Section 7(d) (iii) of this Part or by the NAIC in comparing the security with the NAIC CRP rating feeds... U.S. Government obligations are not required to be filed with the SVO.

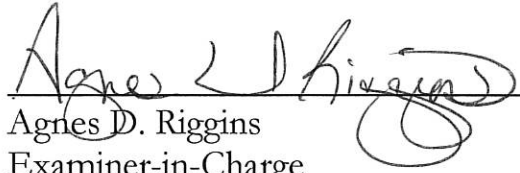
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC, have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, Charles Turner, CISA, and Brent M. Sallay, FCAS, MAAA, actuarial examiner, all representing the Alabama Department of Insurance, participated in certain phases of this examination:

Respectfully submitted,



Agnes D. Riggins
Examiner-in-Charge
State of Alabama Department of Insurance